

BAPTIST HEALTH SOUTH FLORIDA, INC.
AND AFFILIATES

**Condensed Consolidated Financial Statements (Unaudited) as of March 31, 2019,
and September 30, 2018, and the Interim Three- and Six-Month Periods Ended
March 31, 2019 and 2018, Report of Management and Independent Auditors'
Review Report**

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

TABLE OF CONTENTS

	<u>Page</u>
REPORT OF MANAGEMENT	1
INDEPENDENT AUDITORS' REVIEW REPORT	2
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED):	
Balance Sheets	4
Statements of Operations	5
Statements of Changes in Net Assets	6
Statements of Cash Flows	7
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)	8
SUPPLEMENTAL CONSOLIDATING INFORMATION (UNAUDITED) FOR BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES:	
Balance Sheet Information	24
Statement of Operations Information	25
SUPPLEMENTAL COMBINING INFORMATION (UNAUDITED) FOR BAPTIST HEALTH SOUTH FLORIDA, INC. HOSPITALS:	
Balance Sheet Information	26
Statement of Operations Information	27

REPORT OF MANAGEMENT

The management of Baptist Health South Florida, Inc. is responsible for the integrity and objectivity of the financial statements of Baptist Health and affiliates (“Baptist Health”). The condensed consolidated interim financial statements omit footnote disclosures and other information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, and include amounts that are based on our best judgments with due consideration given to materiality.

Management is responsible for establishing and maintaining a system of internal controls over financial reporting and safeguarding assets against unauthorized acquisition, use or disposition. This system is designed to provide reasonable assurance as to the integrity and reliability of financial reporting and safeguarding of assets. The concept of reasonable assurance is based on the recognition that there are inherent limitations in all systems of internal controls, and that the cost of such systems should not exceed the benefits to be derived from them.

Management believes that the foundation of an appropriate system of internal controls is a strong ethical company culture and climate. It has always been the policy and practice of Baptist Health to conduct its affairs in a highly ethical and socially responsible manner. This responsibility is characterized and reflected in Baptist Health’s Code of Ethics (the “Code”) that is distributed throughout Baptist Health. Management maintains a systematic program to ensure compliance with this Code.

The Audit and Compliance Committee of the Board of Trustees, which is composed of independent persons who are not employees, meets periodically with management, the internal auditors and the independent auditors to review the manner in which these groups are performing their responsibilities and to carry out the Audit and Compliance Committee’s oversight role with respect to auditing, internal controls and financial reporting matters. Both the internal auditors and the independent auditors periodically meet privately with the Audit and Compliance Committee and have access to its individual members.



Brian E. Keeley
President and Chief Executive Officer



Matthew Arsenault
Executive Vice President and
Chief Financial Officer

INDEPENDENT AUDITORS' REVIEW REPORT

To the Board of Trustees of Baptist Health South Florida, Inc. and Affiliates:

We have reviewed the accompanying condensed consolidated balance sheet of Baptist Health South Florida, Inc. and affiliates ("BHSF") as of March 31, 2019, and the related condensed consolidated statements of operations for the three- and six-month periods ended March 31, 2019 and 2018, and the changes in net assets, and cash flows for the six-month periods ended March 31, 2019 and 2018 (the "interim financial information").

Management's Responsibility for the Interim Financial Information

BHSF's management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditors' Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the interim financial information referred to above for it to be in accordance with accounting principles generally accepted in the United States of America.

Report on Condensed Consolidated Balance Sheet as of September 30, 2018

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of BHSF as of September 30, 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 21, 2018. In our opinion, the accompanying condensed consolidated balance sheet of BHSF as of September 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Supplementary Information

The supplemental consolidating balance sheet and statement of operations information of BHSF on pages 24 and 25 and the supplemental combining balance sheet and statement of operations information of Baptist Health South Florida, Inc. Hospitals on pages 26 and 27 are presented for the purpose of additional analysis and are not a required part of the interim financial information. This supplemental information is the responsibility of BHSF's management. We have reviewed the supplemental information and, based on our review, we are not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the supplemental information and, accordingly, do not express an opinion on such information.

Deloitte & Touche LLP

May 15, 2019

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATESCONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31, 2019	September 30, 2018
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$107,730,837	\$146,779,645
Assets whose use is limited	100,335,043	50,335,043
Accounts receivable - net	377,390,332	321,410,129
Other current assets	166,399,137	151,851,267
Total current assets	751,855,349	670,376,084
ASSETS WHOSE USE IS LIMITED	2,989,151,240	3,038,850,158
OTHER INVESTMENTS	143,134,276	126,824,705
PROPERTY AND EQUIPMENT - NET	2,323,050,038	2,203,975,074
GOODWILL	82,480,386	77,440,043
OTHER ASSETS	124,976,975	146,441,072
TOTAL ASSETS	<u>\$6,414,648,264</u>	<u>\$6,263,907,136</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$37,531,669	\$48,537,917
Estimated third-party payor settlements	4,572,550	4,317,388
Commercial paper notes	100,000,000	50,000,000
Current maturities of long-term debt	13,090,000	13,090,000
Capital lease obligations	1,212,181	1,124,855
Accrued wages, salaries and benefits	227,911,593	263,467,871
Accrued expenses and other current liabilities	466,030,101	368,972,637
Total current liabilities	850,348,094	749,510,668
LONG-TERM DEBT	1,353,130,128	1,355,783,124
CAPITAL LEASE OBLIGATIONS	12,908,059	13,543,916
OTHER LIABILITIES	243,496,430	243,223,236
Total liabilities	<u>2,459,882,711</u>	<u>2,362,060,944</u>
COMMITMENTS AND CONTINGENCIES (see Note 13)		
NET ASSETS:		
Unrestricted:		
Baptist Health South Florida, Inc. and Affiliates	3,767,618,939	3,734,828,213
Noncontrolling interests	38,725,966	36,998,224
Total unrestricted net assets	3,806,344,905	3,771,826,437
Temporarily restricted	130,552,490	115,079,423
Permanently restricted	17,868,158	14,940,332
Total net assets	<u>3,954,765,553</u>	<u>3,901,846,192</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$6,414,648,264</u>	<u>\$6,263,907,136</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
SIX-MONTH PERIODS ENDED MARCH 31, 2019 AND 2018

	Three Months March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT:				
Net patient service revenue before provision for doubtful accounts		\$831,586,301		\$1,657,154,819
Provision for doubtful accounts		108,453,911		227,561,098
Net patient service revenue	\$809,099,112	723,132,390	\$1,621,571,835	1,429,593,721
Rental revenue	3,896,447	3,316,376	6,785,458	6,586,726
Other operating revenue	31,757,883	20,032,732	53,988,263	39,966,597
Total unrestricted revenues, gains and other support	844,753,442	746,481,498	1,682,345,556	1,476,147,044
EXPENSES:				
Wages, salaries and benefits	428,643,128	412,280,726	856,563,315	819,530,498
Supplies	123,669,916	116,370,470	243,412,948	231,859,815
Malpractice and other insurance	33,907,168	24,899,738	54,151,535	50,354,886
Administrative and general	163,716,926	137,099,810	314,768,208	277,285,663
Depreciation and amortization	45,953,641	48,552,551	91,608,916	96,440,084
Interest	13,104,808	12,074,659	26,231,528	27,816,972
Total expenses	808,995,587	751,277,954	1,586,736,450	1,503,287,918
INCOME (LOSS) FROM OPERATIONS	35,757,855	(4,796,456)	95,609,106	(27,140,874)
OTHER INCOME (LOSS):				
Investment income (loss)	196,046,680	23,232,593	(48,306,346)	119,637,960
Loss on extinguishment of long-term debt				(6,751,542)
Inherent contribution of unrestricted net assets from affiliation with Bethesda Health				253,028,061
Other (loss) income - net	(1,165,543)	192,911	(1,910,146)	(100,910)
Total other income (loss)	194,881,137	23,425,504	(50,216,492)	365,813,569
EXCESS OF REVENUES OVER EXPENSES BEFORE INCOME TAX PROVISION (BENEFIT) AND NONCONTROLLING INTERESTS	230,638,992	18,629,048	45,392,614	338,672,695
INCOME TAX PROVISION (BENEFIT)	593,861	(260,350)	103,880	(97,987)
EXCESS OF REVENUES OVER EXPENSES FROM CONSOLIDATED OPERATIONS	230,045,131	18,889,398	45,288,734	338,770,682
INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(6,016,313)	(4,681,149)	(12,471,324)	(9,855,382)
EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES	\$224,028,818	\$14,208,249	\$32,817,410	\$328,915,300

See accompanying notes to condensed consolidated financial statements (unaudited).

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATESCONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (UNAUDITED)
SIX-MONTH PERIODS ENDED MARCH 31, 2019 AND 2018

	2019	2018
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses from consolidated operations	\$45,288,734	\$338,770,682
Net assets released from restrictions used for property and equipment acquisitions	39,623	1,453,854
Noncontrolling interest related to surgery centers	3,936,016	4,070,158
Sale of limited partnership interests	427,529	419,555
Purchase of limited partnership interests	(1,708,991)	(395,142)
Partnership distributions	(13,398,136)	(12,678,608)
Other - net	(66,307)	(178,606)
Increase in unrestricted net assets	34,518,468	331,461,893
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	17,818,761	14,493,904
Inherent contribution of temporarily restricted net assets from affiliation with Bethesda Health		19,042,264
Provision for uncollectable pledges	(440,725)	(102,740)
Net assets released from restrictions	(1,751,210)	(4,484,548)
Restricted (loss) income on temporarily restricted contributions	(194,259)	1,053,799
Other - net	40,500	
Increase in temporarily restricted net assets	15,473,067	30,002,679
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	2,927,826	34,380
Inherent contribution of permanently restricted net assets from affiliation with Bethesda Health		1,246,741
Increase in permanently restricted net assets	2,927,826	1,281,121
INCREASE IN NET ASSETS	52,919,361	362,745,693
NET ASSETS - BEGINNING OF YEAR	3,901,846,192	3,451,178,465
NET ASSETS - END OF PERIOD	\$3,954,765,553	\$3,813,924,158

See accompanying notes to condensed consolidated financial statements (unaudited).

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
SIX-MONTH PERIODS ENDED MARCH 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$52,919,361	\$362,745,693
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	91,608,916	96,440,084
Provision for doubtful accounts		227,561,098
Accretion of bond premium and issue cost amortization - net	(2,652,996)	(1,419,520)
Deferred income tax	(219,025)	(874,865)
Realized gain on sales of securities - net	(7,096,796)	(86,770,447)
Change in net unrealized gains and losses	79,714,715	(7,432,335)
Noncontrolling interest related to surgery center acquisitions	(3,936,016)	(4,070,158)
Loss on extinguishment of debt		6,751,542
Sale of limited partnership interests	(427,529)	(419,555)
Purchase of limited partnership interests	1,708,991	395,142
Inherent contributions of unrestricted net assets from affiliation with Bethesda Health		(253,028,061)
Inherent contribution of restricted net assets from affiliation with Bethesda Health		(20,289,005)
Partnership distributions	13,398,136	12,678,608
(Gain) loss on disposal of assets - net	(1,206,824)	372,271
Changes in assets and liabilities:		
Net increase in accounts receivable	(62,349,821)	(246,170,902)
Net decrease (increase) in other assets	696,829	(40,442,850)
Net (decrease) increase in accounts payable	(11,006,248)	14,748,399
Net increase in third-party payor settlements	255,162	41,650
Net increase (decrease) in accrued expenses and other liabilities	66,718,401	(3,003,519)
Net cash provided by operating activities	218,125,256	57,813,270
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment - net	(214,533,039)	(126,812,040)
Inherent contribution of cash from affiliation with Bethesda Health		16,482,933
Acquisition of surgery centers and physician practices	(1,991,578)	(1,900,000)
Sale of limited partnership interests	427,529	419,555
Purchase of limited partnership interests	(1,708,991)	(395,142)
Purchase of investments	(2,775,089,656)	(2,024,971,647)
Proceeds from sales and maturities of investments	2,694,085,658	2,100,189,123
Net cash used in investing activities	(298,810,077)	(36,987,218)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contribution restricted for property and equipment purchases	6,369,618	4,402,654
Proceeds from issuance of commercial paper notes - net	50,000,000	
Proceeds from issuance of long-term debt		895,943,006
Repayment of debt	(1,335,469)	(891,237,995)
Debt issue costs		(5,803,959)
Partnership distributions	(13,398,136)	(12,678,608)
Net cash provided by (used in) financing activities	41,636,013	(9,374,902)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(39,048,808)	11,451,150
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	146,779,645	131,859,287
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$107,730,837	\$143,310,437
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest - net of amounts capitalized	\$27,544,000	\$25,769,572
Cash paid for income taxes	\$840,000	\$240,000

See accompanying notes to condensed consolidated financial statements (unaudited).

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Baptist Health South Florida, Inc. (“BHSF”), a not-for-profit Florida corporation located in Miami-Dade County, Florida, is the parent company of a system of not-for-profit hospitals (Baptist Hospital of Miami, Inc., Bethesda Hospital, Inc., Doctors Hospital, Inc., Fishermen’s Health, Inc., Homestead Hospital, Inc., Mariners Hospital, Inc., South Miami Hospital, Inc., and West Kendall Baptist Hospital, Inc., (collectively, the “BHSF Hospitals”) and other not-for-profit and for-profit corporations.

Pursuant to a Master Trust Indenture, an obligated group (the “BHSF Obligated Group”) was created which, at September 30, 2018, consisted of BHSF, the BHSF Hospitals, Baptist Outpatient Services, Inc. (“BOS”), Bethesda Health, Inc., Bethesda Health Comprehensive Imaging Services, Inc. (“BHCI”), Bethesda Health Outpatient Services, Inc. (“BHOS”), and Bethesda Payroll Services, Inc. Each member of the BHSF Obligated Group is jointly and severally liable for all debt issued under the Master Trust Indenture (see Note 7). Under the BHSF Master Trust Indenture, the BHSF Obligated Group must comply with restrictions on incurrence of additional debt and certain other covenants. Payment of principal and interest on outstanding debt issuance is wholly dependent on the credit of the BHSF Obligated Group.

Baptist Health Enterprises, Inc. (“BHE”) is a for-profit Florida corporation wholly owned by BHSF.

BHE, through its subsidiaries, owns interests, between approximately 26% and 71%, in limited liability companies (“LLC”) and limited partnerships (“LP”) which own and operate ambulatory surgery centers (“surgery centers”) and sleep centers. BHE has variable interests in the LLCs and LPs through its equity ownership interests. Each LLC and LP is considered a Variable Interest Entity (“VIE”) due to its structure as a limited partnership or functional equivalent. For those LLCs and LPs which BHE consolidates, BHE is considered the primary beneficiary due to the partnership agreements allowing BHE to govern the day-to-day activities and thereby control the most significant economic activities. The total assets (excluding goodwill and intangible assets, net) of the consolidated VIEs within the ambulatory services segment, which are included in the accompanying consolidated balance sheets, as of March 31, 2019 and September 30, 2018, were approximately \$42,188,000 and \$41,897,000, respectively, and the total liabilities of the consolidated VIEs were approximately \$9,139,000 and \$10,218,000, respectively.

GAAP requires VIEs to be consolidated if an entity’s interest in the VIE is a controlling financial interest. Under the variable interest model, a controlling financial interest is determined based on which entity, if any, has (i) the power to direct the activities of the VIE that most significantly impacts the VIE’s economic performance and (ii) the obligations to absorb the losses that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. BHE performs assessments of (i) whether entities acquired in the current period should be accounted for under the VIE framework, and (ii) whether entities previously evaluated under the majority voting-interest framework have become VIEs, based on certain triggering events, and therefore would be subject to the VIE consolidation framework. The consolidation status of the VIEs with which BHE is involved may change as a result of such reassessments. Changes in consolidation status are applied prospectively with assets and liabilities of a newly consolidated VIE initially recorded at fair value.

In December 2018, BHSF and Boca Raton Regional Hospital (“BRRH”) reached an agreement on a non-binding Letter of Intent regarding a strategic partnership between BHSF and BRRH. In February 2019, BHSF opened the Hilton Miami-Dadeland Hotel, a 184 guest room hotel located on the Baptist Hospital campus. In February 2019, Baptist Health International Cayman Islands, Ltd., commenced operations in the Cayman Islands.

In management’s opinion, the accompanying Unaudited Condensed Consolidated Financial Statements of BHSF contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly, in all material respects, the condensed consolidated financial position of BHSF, the results of its operations, changes in its net assets and its cash flows for the periods presented. The accompanying Unaudited Condensed Consolidated Financial Statements omit footnote disclosures and other information normally included in financial statements prepared in accordance with accounting

principles generally accepted in the United States of America (“GAAP”). The Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Audited Consolidated Financial Statements and Notes to Consolidated Financial Statements as of September 30, 2018, and for the year then ended. The accounting policies followed for interim financial reporting are the same as those disclosed in Note 1 - “Organization and Summary of Significant Accounting Policies” of the September 30, 2018, Notes to Consolidated Financial Statements.

Adopted Accounting Pronouncements – Effective October 1, 2018, BHSF adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”) using a modified retrospective method of application to all contracts existing on October 1, 2018. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of ASU 2014-09 resulted in changes to the presentation for and disclosure of revenue primarily related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, a significant portion of BHSF’s provision for doubtful accounts related to self-pay patients, as well as co-pays, co-insurance amounts and deductibles owed to BHSF by patients with insurance. Under ASU 2014-09, the estimated uncollectable amounts due from these patients are generally considered implicit price concessions that are a direct reduction to net patient services revenue, with a corresponding material reduction in the amounts presented separately as provision for doubtful accounts. For the three and six months ended March 31, 2019, BHSF recorded approximately \$106,010,000 and \$183,580,000, respectively, of implicit price concessions as a direct reduction of net patient services revenues that would have been recorded as provision for doubtful accounts with a corresponding material reduction in the amount presented separately as provision for doubtful accounts. For the three- and six- month periods ended March 31, 2019, BHSF recorded approximately \$22,516,000 and \$234,958,000, respectively, as a direct reduction of accounts receivables that would have been reflected as an allowance for doubtful accounts prior to the adoption of ASU 2014-09. As part of the adoption of Accounting Standards Codification (“ASC”) 606, BHSF elected two of the available practical expedients provided for in the standard. BHSF does not adjust the transaction price for any financing components as those were deemed to be insignificant. Additionally, BHSF expenses all incremental customer contract acquisition costs as incurred as such costs are not material and would be amortized over a period of less than one year.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (“ASU 2018-08”). ASU 2018-08 assists in evaluating whether transactions should be accounted for as contributions or exchange transactions. The guidance also assists in determining whether a contribution is conditional which would impact the timing of revenue recognition. ASU 2018-08 is effective for fiscal years beginning after June 15, 2018. BHSF adopted this standard as of October 1, 2018. The adoption of this standard had no impact on BHSF’s condensed consolidated financial statements.

Cash and Cash Equivalents – BHSF has a system-wide treasury policy, which recognizes its responsibility to oversee, manage and coordinate all affiliate treasury operations. BHSF serves as the centralized cash receipt and disbursing agent for all BHSF entities. The treasury policy provides that each BHSF affiliate’s unrestricted cash and investments be transferred to BHSF, and that BHSF provide or arrange for advances and loans to its affiliates and provide financial support for the BHSF Hospitals and the other corporations comprising the system. These transfers have been eliminated in consolidation.

Assets Whose Use is Limited and Other Investments – BHSF entered into additional alternative investments by securing interests in three limited partnerships in the first half of fiscal year 2019. Two of the limited partnerships focused on stressed and distressed credit. The third limited partnership is a real estate fund that is geographically diversified throughout the southern United States.

All BHSF alternative investments are accounted for at fair value based on net asset value. All gains and losses from these alternative investments are reflected in investment income. The carrying value of BHSF’s interests in alternative investments, including those noted above, as of March 31, 2019 and September 30, 2018, was approximately \$491,539,000 and \$430,521,000, respectively (see Note 12).

2. AFFILIATIONS AND ACQUISITIONS

Bethesda Health – Effective October 1, 2017, full affiliation occurred with Bethesda Health, Inc. and affiliated companies (“Bethesda Health”). Bethesda Health includes not-for-profit entities Bethesda Hospitals, Bethesda Health Foundation, Inc., BHCI, BHOS, Bethesda Payroll, and a for-profit entity Bethesda Holding Company, Inc. The fair value of the assets acquired exceeded liabilities assumed, resulting in an inherent contribution of approximately \$274,426,000, which was recorded as fair value of net assets acquired in the consolidated statement of operations and changes in net assets for the period ended September 30, 2018. The fair value was based on Level III valuation inputs and market participant assumptions and was determined using a discounted cash flow model and the market approach. BHSF calculated the present value of the expected cash flows based on a discount rate of 8%. The values included in the comparative information as of and for the three-month period ended March 31, 2018 were provisional amounts pending final valuation of Bethesda Health net assets.

BHE – In March 2019, BHE acquired controlling interest in a single specialty ambulatory surgery center located in West Palm Beach, Florida. The total amount of cash consideration paid for a 26.01% interest was approximately \$1,730,000. Additionally, the transaction resulted in the recording of goodwill of approximately \$5,040,000 (See Note 6). The purchase price of the acquisition was allocated to the identifiable assets acquired and liabilities assumed based on estimates of their fair value, with the excess purchase price recorded as goodwill.

In March 2019, BHSF and Belmont Village Senior Living, a nationally recognized seniors housing provider, announced the creation of a joint venture to develop, own and operate senior living communities in South Florida.

3. CASH AND CASH EQUIVALENTS, ASSETS WHOSE USE IS LIMITED AND OTHER INVESTMENTS

Cash and cash equivalents, assets whose use is limited and other investments at March 31, 2019, and September 30, 2018, are summarized as follows:

	March 31, 2019	September 30, 2018
Cash and cash equivalents:		
Operating cash	\$107,730,837	\$146,779,645
Assets whose use is limited:		
Board designated for:		
Funded depreciation	\$2,813,873,666	\$2,763,741,207
Education	335,043	335,043
Note proceeds (see Note 7)	231,242,782	282,298,004
Insurance and self-insurance reserves	44,034,792	42,810,947
Total	3,089,486,283	3,089,185,201
Less current portion	(100,335,043)	(50,335,043)
Assets whose use is limited	\$2,989,151,240	\$3,038,850,158
Other investments:		
Unrestricted	\$62,016,227	\$56,016,705
Temporarily restricted	68,777,452	56,197,000
Permanently restricted	12,340,597	14,611,000
Other investments	\$143,134,276	\$126,824,705

Investment income (loss) and gains and losses for cash and cash equivalents, assets whose use is limited and other investments for the three- and six-month periods ended March 31, 2019 and 2018, consisted of the following:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Investment income (loss):				
Interest and dividends income	\$11,742,671	\$12,091,480	\$24,311,573	\$25,435,178
Realized gains on sales of securities	37,763,325	64,558,758	90,364,158	129,545,118
Realized losses on sales of securities	(26,764,762)	(23,263,564)	(83,267,362)	(42,774,671)
Change in net unrealized gains and losses	173,305,446	(30,154,081)	(79,714,715)	7,432,335
Investment income (loss)	<u>\$196,046,680</u>	<u>\$23,232,593</u>	<u>(\$48,306,346)</u>	<u>\$119,637,960</u>
Other changes in temporarily restricted net assets:				
Investment income (loss)	<u>\$1,032,617</u>	<u>(\$56,271)</u>	<u>(\$194,259)</u>	<u>\$1,053,799</u>

4. NET PATIENT SERVICE REVENUE

Net patient service revenue is reported at the amount that reflects the consideration to which BHSF expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, BHSF bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by BHSF. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected, or actual, charges. BHSF believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute care services or patients receiving services in our outpatient centers. BHSF measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our patients and customers in a retail setting, such as pharmaceuticals for example, and BHSF does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, BHSF has elected to apply the optional exemption provided in FASB ASC 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

BHSF determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with BHSF's policy, and implicit price concessions provided to uninsured patients. BHSF determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. BHSF determines its estimate of implicit price concessions based on its historical collection experience using a portfolio approach as a practical expedient by accounting for patient contracts as collective groups rather than individually. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

Agreements with third-party payors typically provide for payments at amounts less than established charges. Payments under traditional Medicare and Medicaid programs are based primarily on prospectively determined rates depending on clinical, diagnostic, and other factors and cost-reimbursement methodologies subject to certain limits. Payments for other payor sources, including managed care health plans, are based primarily on terms involving predetermined rates per

diagnosis, per-diem rates, discounts from established charges and/or other similar contractual arrangements.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. BHSF also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. BHSF estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the six-month period ended March 31, 2019, additional revenue of approximately \$19,000,000 was recognized due to changes in estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with BHSF's mission, care is provided to patients regardless of their ability to pay. Therefore, BHSF has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts BHSF expects to collect based on its collection history with similar patients.

BHSF provides charity care to patients who are financially unable to pay for the healthcare services they receive. Such amounts determined to qualify as charity care are not reported as revenue. Uninsured patients treated at BHSF facilities with household income at or below 200% to 300% of the federal poverty level are eligible for free care. In addition, uninsured patients may be eligible for charity care if incurred charges are considered beyond the patient's ability to pay. The federal poverty level is established by the federal government and is based on income and family size. BHSF provided charity care at a cost of approximately \$27,267,000 and \$18,693,000 for the three-month periods ended March 31, 2019 and 2018, respectively, and \$51,231,000 and \$47,473,000 for the six-month periods ended March 31, 2019 and 2018 respectively. The estimated cost of providing charity services is based on recent historical cost-to-charge ratios for charity patients from BHSF's cost accounting system applied to the current period gross uncompensated charges associated with providing care to charity patients.

BHSF has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, and service types. The following tables provide details of these factors.

The following summarizes the composition of net patient service revenue by primary payor class for the three- and six-month periods ended March 31, 2019 and 2018:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Net patient service revenue				
Medicare	\$126,077,936	\$96,810,111	\$239,516,012	\$196,713,300
Medicare managed care	141,879,607	94,090,411	264,976,317	196,464,627
Medicaid, Medicaid managed care	26,926,120	40,613,538	60,606,124	71,449,307
Managed care	437,426,426	439,700,978	912,498,824	853,708,324
Other	76,789,023	51,917,352	143,974,558	111,258,163
Total net patient service revenue	<u>\$809,099,112</u>	<u>\$723,132,390</u>	<u>\$1,621,571,835</u>	<u>\$1,429,593,721</u>

Revenue from patient deductibles and coinsurance are included in the preceding categories based on the primary payor.

BHSF revenues by primary service type were as follows for the three- and six-month periods ended March 31, 2019 and 2018:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Inpatient services	\$344,718,569	\$297,137,895	\$663,606,522	\$574,271,758
Outpatient services	464,380,543	425,994,495	957,965,313	855,321,963
Total net patient service revenue	809,099,112	723,132,390	1,621,571,835	1,429,593,721
Non-patient (ancillary goods, services and rental income)	35,654,330	23,349,108	60,773,721	46,553,323
Total unrestricted revenues, gains, and other support	<u>\$844,753,442</u>	<u>\$746,481,498</u>	<u>\$1,682,345,556</u>	<u>\$1,476,147,044</u>

BHSF has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to BHSF's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, BHSF in certain instances enters into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is deemed not significant to the contract.

BHSF has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that BHSF otherwise would have recognized is one year or less in duration.

Under the provision of ASU 2014-09, which BHSF adopted effective October 1, 2018, amounts related to services provided to patients which do not meet the conditions of unconditional rights to payment at the end of the reporting period are contract assets. BHSF's contract assets consist primarily of services provided to patients who are still receiving inpatient care in a BHSF facilities at the end of the reporting period. The contract assets are included in accounts receivables on the accompanying condensed consolidated balance sheet at March 31, 2019.

The opening and closing balances of contract assets for the three and six months ended March 31, 2019, are as follows:

	Contract Assets
December 31, 2018	\$23,475,000
March 31, 2019	23,976,204
Increase in contract assets	<u>\$501,204</u>
October 1, 2018	\$20,911,000
March 31, 2019	23,976,204
Increase in contract assets	<u>\$3,065,204</u>

The increase in the contract asset balances for the three and six months ended March 31, 2019, is due to the volume of charges from in-house patients at the end of the period.

During the three months ended March 31, 2019, BHSF received approximately \$4,377,000 related to favorable settlements of outstanding disputes with third-party payors. BHSF did not receive any additional settlements during the three months ended March 31, 2018. For the six months ended March 31, 2019 and 2018, BHSF received approximately \$27,938,000 and \$377,000, respectively, related to favorable settlements of outstanding disputes with third-party payors. Third-party payor settlements are recorded as an adjustment to net patient service revenue when the disputes are settled and the cash settlements are received.

5. PROPERTY AND EQUIPMENT - NET

Property and equipment - net at March 31, 2019, and September 30, 2018, are summarized as follows:

	March 31, 2019	September 30, 2018
Land and land improvements	\$493,002,652	\$424,608,221
Buildings and improvements	1,914,588,811	1,893,046,863
Equipment	1,017,558,428	976,425,636
Software and licenses	259,057,790	258,333,771
Total	3,684,207,681	3,552,414,491
Less accumulated depreciation	(1,632,265,644)	(1,546,027,578)
Total	2,051,942,037	2,006,386,913
Construction in process	271,108,001	197,588,161
Property and equipment - net	<u>\$2,323,050,038</u>	<u>\$2,203,975,074</u>

Interest costs incurred during the three-month periods ended March 31, 2019 and 2018, were approximately \$14,371,000 and \$12,475,000, respectively. During the six-month periods ended March 31, 2019 and 2018, interest costs were approximately \$28,610,000 and \$28,902,000, respectively. Interest capitalized was approximately \$1,267,000 and \$400,000, for the three-month periods ended March 31, 2019 and 2018, respectively, and \$2,379,000 and \$1,085,000 for the six-month periods ended March 31, 2019 and 2018, respectively. Depreciation expense on property and equipment during the three-month periods ended March 31, 2019 and 2018, amounted to approximately \$45,954,000 and \$48,552,000, respectively. During the six-month periods ended March 31, 2019 and 2018, depreciation expense was approximately \$91,609,000 and \$96,438,000, respectively.

As of March 31, 2019 and September 30, 2018, BHSF has accrued approximately \$30,719,000 and \$38,037,000, respectively, for the acquisition and construction of property and equipment. These amounts are included in accounts payable and accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

6. GOODWILL - NET

Goodwill is subject to at least an annual assessment for impairment by applying a fair-value based test. BHSF performs an annual impairment test during the fourth quarter of each fiscal year or more frequently, when events or other changes in circumstances indicate that the carrying value of goodwill may not be recoverable. During the six-month period ended March 31, 2019, there were no indications of impairment which would require an interim additional goodwill impairment test.

A summary of the changes in goodwill at March 31, 2019, and September 30, 2018, is listed below:

	March 31, 2019	September 30, 2018
Goodwill, beginning of year	\$77,440,043	\$72,507,450
Ambulatory surgery center acquisitions and purchase price adjustments	5,040,343	4,915,521
Acquisition of assets relating to Fishermen's Hospital		17,072
Goodwill, end of period	<u>\$82,480,386</u>	<u>\$77,440,043</u>

7. DEBT

On May 25, 2011, the BHSF Obligated Group issued \$250,000,000 of its Baptist Health South Florida Obligated Group Taxable Notes, Series 2011 (the "2011 Taxable Notes"). The 2011 Taxable Notes were issued under the Master Trust Indenture, as amended and supplemented by a First Supplemental Master Trust Indenture. The 2011 Taxable Notes bear

interest at 4.59% per annum and mature on August 15, 2021. Proceeds of the 2011 Taxable Notes may be used for any corporate purposes; however, BHSF has designated and used the proceeds to construct and equip the new Miami Cancer Institute facilities on the campus of Baptist Hospital.

On December 21, 2011, the BHSF Obligated Group implemented a commercial paper program that allows BHSF to issue up to \$150,000,000 of taxable commercial paper notes for general corporate purposes at an interest rate to be determined at the time of the commercial paper notes issuance. The commercial paper program was issued under the Master Trust Indenture, as amended and supplemented by a Second Supplemental Master Trust Indenture. As of March 31, 2019, notes totaling \$100,000,000 have been issued and are outstanding; the notes bear an average interest rate of between 2.61% and 2.80% per annum, with maturity dates of May 6, 2019, and June 20, 2019; a \$50,000,000 commercial paper note was subsequently refunded in the third quarter of fiscal year 2019 (see Note 14).

On January 9, 2017, the BHSF Obligated Group issued \$250,000,000 of its Baptist Health South Florida Obligated Group Taxable Notes, Series 2017 (the “2017 Taxable Notes”). The 2017 Taxable Notes were issued under the Master Trust Indenture, as amended and restated by a Third Supplemental Master Trust Indenture. The 2017 Taxable Notes bear interest at 4.34% per annum, payable annually on November 15, and will mature on November 15, 2041. Proceeds of the 2017 Taxable Notes may be used for any corporate purposes.

On December 28, 2017, the BHSF Obligated Group issued through the City of South Miami Health Facilities Authority \$809,565,000 of its Hospital Refunding Revenue Bonds, Series 2017 (“2017 Bonds”) in accordance with the provisions of the Fifth Supplemental Master Trust Indenture dated as of December 1, 2017. The 2017 Bonds bear interest at rates ranging from 3.00% to 5.00%, payable semiannually each February 15 and August 15, and mature annually on August 15 through 2047. Proceeds of the 2017 Bonds, together with other available funds, were used to refund outstanding bonds and pay issue costs incurred in connection with the issuance of the 2017 Bonds.

Under the Master Trust Indenture, the BHSF Obligated Group has certain restrictions on incurrence of additional debt and certain other covenants.

A summary of debt at March 31, 2019, and September 30, 2018, is as follows:

	March 31, 2019	September 30, 2018
2017 Tax-Exempt Bonds (net of unaccreted bond premium: March 31, 2019 - \$78,696,836; September 30, 2018 - \$81,638,138 and deferred issue costs: March 31, 2019 - \$5,526,981, September 30, 2018 - \$5,684,313)	\$868,599,855	\$871,383,825
2017 Taxable Notes (net of deferred issue costs: March 31, 2019 - \$1,945,072; September 30, 2018 - \$1,987,978)	248,054,928	248,012,022
2011 Taxable Notes (net of deferred issue costs: March 31, 2019 - \$434,655; September 30, 2018 - \$522,723)	249,565,345	249,477,277
Commercial paper notes (including unamortized discount: March 31, 2019 - \$433,625; September 30, 2018 - \$73,389)	100,000,000	50,000,000
Total debt	1,466,220,128	1,418,873,124
Amount representing current maturities	(113,090,000)	(63,090,000)
Long-term debt	<u>\$1,353,130,128</u>	<u>\$1,355,783,124</u>

8. CAPITAL LEASE OBLIGATION

On October 14, 2011, Bethesda Health sold a medical office building to an unrelated party for approximately \$36,000,000, resulting in a gain of approximately \$28,000,000. Bethesda Health simultaneously leased back approximately 50% of the rentable square feet of the building for fifteen years resulting in the deferral of approximately \$18,000,000 of the total gain. The lease has been recorded as an \$18,000,000 capital lease payable over fifteen years, and the deferred gain will be recognized on a straight line basis over the same period. In connection with the change of control effective October 1, 2017, Bethesda Health has elected to apply pushdown accounting by applying the guidance in ASC 805 *Business Combinations*. The adjustments for pushdown accounting resulted in a new basis of zero for the capital lease asset.

9. RETIREMENT PLANS

Bethesda Health participates in a noncontributory Defined Benefit Plan (“DBP”), covering substantially all of their qualified employees. The benefits are based on years of service and employees’ compensation levels and are calculated using the projected unit credit actuarial cost method. Bethesda Health’s current funding policy is to contribute annual amounts that meet the requirements of IRC Section 412 for minimum funding and the requirements for IRC Section 404 with regard to maximum contribution limitations. Annual contributions to the DBP equal the amount accrued for pension expense. The estimated contributions to be paid to the DBP during the fiscal year ended September 30, 2019, are \$8,700,000, of which \$4,950,000 has been paid as of March 31, 2019.

Bethesda Health follows the provision of ASC Topic 715, *Compensation-Retirement Benefits*. ASC Topic 715 requires the recognition of the funded status (the difference between the fair value of plan assets and the projected benefit obligations) of its DBP in the accompanying consolidated balance sheet, with a corresponding adjustment to unrestricted net assets. At March 31, 2019, and September 30, 2018, the DBP was underfunded by \$12,159,000 and \$17,109,000, respectively, and is included in other liabilities in the accompanying condensed consolidated balance sheets. Actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of unrestricted net assets. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in unrestricted net assets.

On September 21, 2014, Bethesda Health approved a freeze of the DBP and ceased all future benefit accruals effective September 30, 2018. Participants of the DBP then became eligible for the defined contribution plan noted below. As of January 1, 2019, Bethesda Health employees were eligible to transfer to the BHSF retirement plan.

Bethesda Health has established a defined contribution plan, which is available for eligible employees hired on or after October 1, 2005. The defined contribution plan was established to provide benefits for employees of the sponsor and is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended.

10. NET ASSETS

Changes in consolidated unrestricted net assets attributable to BHSF and non-controlling interests for the six-month period ended March 31, 2019, are as follows:

	Total	BHSF	Noncontrolling Interests
Unrestricted net assets, beginning of year	\$3,771,826,437	\$3,734,828,213	\$36,998,224
Excess of revenues over expenses	45,288,734	32,817,410	12,471,324
Net assets released from restrictions used for property and equipment acquisitions	39,623	39,623	
Noncontrolling interests related to surgery center acquisitions	3,936,016		3,936,016
Sale of limited partnership interests	427,529		427,529
Purchase of limited partnership interests	(1,708,991)		(1,708,991)
Partnership distributions	(13,398,136)		(13,398,136)
Other - net	(66,307)	(66,307)	
Increase in unrestricted net assets	34,518,468	32,790,726	1,727,742
Unrestricted net assets, end of period	\$3,806,344,905	\$3,767,618,939	\$38,725,966

Changes in consolidated unrestricted net assets attributable to BHSF and non-controlling interests for the six-month period ended March 31, 2018, are as follows:

	Total	BHSF	Noncontrolling Interests
Unrestricted net assets, beginning of year	\$3,353,145,985	\$3,319,994,650	\$33,151,335
Excess of revenues over expenses	338,770,682	328,915,300	9,855,382
Net assets released from restrictions used for property and equipment acquisitions	1,453,854	1,453,854	
Noncontrolling interests related to surgery center acquisitions	4,070,158		4,070,158
Sale of limited partnership interests	419,555		419,555
Purchase of limited partnership interests	(395,142)		(395,142)
Partnership distributions	(12,678,608)		(12,678,608)
Other - net	(178,606)	(178,606)	
Increase in unrestricted net assets	331,461,893	330,190,548	1,271,345
Unrestricted net assets, end of period	\$3,684,607,878	\$3,650,185,198	\$34,422,680

Temporarily and permanently restricted net assets were available for the following purposes at March 31, 2019, and September 30, 2018:

	Temporarily Restricted		Permanently Restricted	
	March 31, 2019	September 30, 2018	March 31, 2019	September 30, 2018
Equipment and building fund	\$61,109,380	\$52,283,986	\$1,296,741	\$1,296,741
Indigent care	1,247,732	1,179,966	5,835,972	5,775,972
Health education and research	68,195,378	61,615,471	10,735,445	7,867,619
Temporarily and permanently restricted net assets	\$130,552,490	\$115,079,423	\$17,868,158	\$14,940,332

BHSF's endowment consists of funds that have been limited by donors to a specific time period or purpose. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Endowment funds received are included in assets whose use is limited and invested in accordance with BHSF's investment policy. Accumulated gains from these investments are not included in the permanently restricted net assets balance.

All permanently restricted net assets are endowments. Gifts donated to the permanently restricted endowments are classified as permanently restricted net assets at their original fair value. Gifts donated with temporary restrictions are classified as temporarily restricted net assets at their original fair value, until those amounts are appropriated for expenditure by the BHSF Hospitals or BOS in accordance with donors' wishes. Income derived from permanently and temporarily restricted net assets is available to support the BHSF Hospitals, BOS, Baptist Health Medical Group, Inc., and Miami Cancer Institute at Baptist Health, Inc., absent explicit donor stipulations to the contrary.

Changes in endowment net assets for the six-month period ended March 31, 2019, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Change in endowment net assets:			
Endowments net assets, beginning of year	\$18,069,511	\$5,918,113	\$14,940,333
Contributions			5,060,000
Investment income	(167,573)	(62,046)	(145,984)
Amounts used for expenditures	(45,620)	(16,024)	145,984
Other - net		(37,610)	
Present value allowance adjustments			(2,132,175)
Endowment net assets, end of period	\$17,856,318	\$5,802,433	\$17,868,158

Changes in endowment net assets for the six-month period ended March 31, 2018, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Change in endowment net assets:			
Endowments net assets, beginning of year			\$13,655,806
Inherent contribution from affiliation of Bethesda Health	\$16,847,809	\$5,812,108	1,246,741
Contributions			22,000
Investment income	671,820	154,939	(21,473)
Amounts used for expenditures		(65,851)	21,473
Present value allowance adjustments			12,380
Endowment net assets, end of period	\$17,519,629	\$5,901,196	\$14,936,927

11. MEDICAL MALPRACTICE AND GENERAL LIABILITY INSURANCE

BHSF is self-insured for professional and general liability coverage. Coverage in excess of the self-insurance limits, less coinsurance, is provided on a claims-made basis by Pineapple Insurance Company, a single-parent, Cayman Islands captive insurance company, which reinsures 100% of the professional and general liability risk with unrelated commercial insurance carriers. The adequacy of the coverage provided and the provisions for losses are reviewed at least semiannually by independent actuaries. Should the claims-made policies be terminated, or not renewed or replaced with equivalent insurance, claims based on incidents during their term, but reported subsequently, will be uninsured. At March 31, 2019, and September 30, 2018, BHSF has accrued undiscounted estimates of approximately \$260,634,000 and \$248,232,000, respectively, which represents the cost to settle malpractice and general liability claims reported and claims incurred but not reported. Approximately \$72,176,000 and \$69,231,000 is included in accrued expenses and other current liabilities and approximately \$188,458,000 and \$179,001,000 is included in other liabilities in the accompanying condensed consolidated balance sheets at March 31, 2019, and September 30, 2018, respectively.

12. FAIR VALUE

Assets Whose Use is Limited and Other Investments - BHSF has elected the fair value option for all investments in debt and equity securities. BHSF classifies investments according to a hierarchy of techniques used to determine fair value based on the types of inputs.

Level 1 inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that are available as of the measuring date. Securities in this category are primarily cash and short-term investments, U.S. Treasury obligations, corporate equity instruments and foreign exchange contracts.

Level 2 inputs are quoted prices in markets that are not active or inputs that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets other than quoted prices in Level 1 or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities. Investments classified as Level 2 primarily include debt securities such as U.S. Agency obligations, municipal bonds, domestic and foreign corporate bonds and foreign government bonds. BHSF's bank custodians use independent pricing services to provide fair values for these securities. These pricing services use the market and income approaches and utilize pricing models that vary by asset class and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, these pricing services utilize available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. As of March 31, 2019 and September 30, 2018, BHSF has recorded the valuations, without adjustment, which were provided by the pricing service.

Level 3 inputs are unobservable inputs that are supported by little or no market activity and are significant to the fair value of the asset or liability. Unobservable inputs reflect BHSF's own judgment about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments for which fair values are determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Transfers between levels occur when there are changes in the determination of whether inputs are observable or not, and changes in market activity. There were no changes to level classifications for securities held at March 31, 2019.

Alternative investments measured at fair value using net asset value ("NAV") per share, or its equivalent, as a practical expedient have not been classified in the fair value hierarchy as a result of adopting ASU 2015-07. The fair value amounts presented for such investments are intended to permit reconciliation of the fair value hierarchy to the investments presented in the consolidated balance sheet.

The disclosure of fair value measurements as of March 31, 2019, is as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Investments Measured at Fair Value	Alternative Investments Measured at Net Asset Value	Total
Financial assets:					
Cash and short-term investments	\$212,856,414		\$212,856,414		\$212,856,414
U.S. Treasury obligations	231,977,903	\$52,346,475	284,324,378		284,324,378
U.S. Agency obligations		86,840,101	86,840,101		86,840,101
Municipal bonds		6,302,473	6,302,473		6,302,473
Corporate equity instruments	1,356,433,878		1,356,433,878		1,356,433,878
Corporate bonds		480,404,941	480,404,941		480,404,941
Foreign government bonds		201,226,815	201,226,815		201,226,815
Foreign corporate bonds		110,295,824	110,295,824		110,295,824
Foreign exchange contracts	2,396,792		2,396,792		2,396,792
Global properties securities fund				\$48,647,639	48,647,639
Infrastructure fund				42,963,200	42,963,200
Private debt fund				67,244,282	67,244,282
Private real estate funds				209,812,729	209,812,729
Private oil and gas fund				50,961,906	50,961,906
Other alternative investments				71,909,187	71,909,187
Total	<u>\$1,803,664,987</u>	<u>\$937,416,629</u>	<u>\$2,741,081,616</u>	<u>\$491,538,943</u>	<u>\$3,232,620,559</u>
Financial liabilities:					
Derivative liabilities	<u>\$78,222,000</u>		<u>\$78,222,000</u>		<u>\$78,222,000</u>

The disclosure of fair value measurements as of September 30, 2018, is as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Investments Measured at Fair Value	Alternative Investments Measured at Net Asset Value	Total
Financial assets:					
Cash and short-term investments	\$202,400,878		\$202,400,878		\$202,400,878
U.S. Treasury obligations	175,553,995	\$23,697,188	199,251,183		199,251,183
U.S. Agency obligations		64,191,374	64,191,374		64,191,374
Municipal bonds		5,791,531	5,791,531		5,791,531
Corporate equity instruments	1,472,893,515		1,472,893,515		1,472,893,515
Corporate bonds		518,900,336	518,900,336		518,900,336
Foreign government bonds		214,143,634	214,143,634		214,143,634
Foreign corporate bonds		104,161,776	104,161,776		104,161,776
Foreign exchange contracts	3,754,527		3,754,527		3,754,527
Global properties securities fund				\$61,185,197	61,185,197
Infrastructure fund				43,995,000	43,995,000
Private debt fund				67,024,809	67,024,809
Private real estate funds				158,101,099	158,101,099
Private oil and gas fund				35,307,350	35,307,350
Other alternative investments				43,511,205	43,511,205
Redemption receivable from other alternative investments				21,396,492	21,396,492
Total	<u>\$1,854,602,915</u>	<u>\$930,885,839</u>	<u>\$2,785,488,754</u>	<u>\$430,521,152</u>	<u>\$3,216,009,906</u>
Financial liabilities:					
Derivative liabilities	<u>\$6,966,000</u>		<u>\$6,966,000</u>		<u>\$6,966,000</u>

BHSF's investment policy provides for a diversified investment portfolio which considers return, risk, social values and BHSF's short-term and long-term liquidity needs, and supports its self-liquidity program. This policy allows participation in alternative investment funds. BHSF's investments in the private debt, infrastructure, private real estate funds, and global securities funds, are considered alternative investments and do not have readily determinable fair values. All of BHSF's alternative investments contain restrictions on an investor's ability to liquidate the investment. All funds may restrict redemptions if, in their respective determinations, it would be in the best interest of the fund to do so. Absent the fund manager's election to restrict, redemption terms differ from each fund.

BHSF currently invests in alternative investments which include private debt, private real estate, private oil and gas, and other alternative funds. Redemptions from these investments are not currently eligible. These funds have estimated terms of six to ten years from the inception date with the option to extend the term for a period of one to three years. Terms and restrictions vary between each investment. Typically the fund manager will make distributions from the fund as the underlying fund investments are liquidated.

The following is a schedule of additional information regarding the alternative investments held by BHSF that are valued using NAV as the practical expedient to fair value as of March 31, 2019:

	March 31, 2019			
	NAV	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Global property securities	\$48,647,639		Monthly	15 days
Infrastructure fund	\$42,963,200		Bi-Annually	90 days
Private debt fund	\$67,244,282		Not currently eligible	
Private real estate funds	\$209,812,729		Quarterly	One quarter in advance, 30 days in advance
Private oil and gas fund	\$50,961,906	\$10,039,000	Not currently eligible	
Other alternative funds	\$71,909,187	\$156,417,000	Not currently eligible	

The following is a schedule of additional information regarding the alternative investments held by BHSF that are valued using NAV as the practical expedient to fair value as of September 30, 2018:

	September 30, 2018			
	NAV	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Global property securities	\$61,185,197		Monthly	15 days
Infrastructure fund	\$43,995,000		Bi-Annually	90 days
Private debt fund	\$67,024,809		Not currently eligible	
Private real estate funds	\$158,101,099	\$29,009,000	Quarterly	One quarter in advance, 30 days in advance
Private oil and gas fund	\$35,307,350	\$22,250,000	Not currently eligible	
Other alternative funds	\$41,441,400	\$35,041,000	Not currently eligible	
Other alternative funds in process of redemption	\$2,069,805		Various	Various over the next 18 months

BHSF has unfunded commitments of \$12,500,000 for additional alternative investments that, as of March 31, 2019, have not been initially funded.

Debt - The combined estimated fair value of BHSF's outstanding debt at March 31, 2019, and September 30, 2018, was \$1,412,311,000 and \$1,357,324,000, respectively (See Note 7). The fair values of the debt are determined using a market pricing approach by using trade data, comparable trades, and other information using observable inputs and are considered Level 2 on the fair value hierarchy.

Other Assets and Liabilities - As of March 31, 2019, BHSF held certain items that are required to be measured at fair value on a recurring basis. Cash and cash equivalents, accounts receivables, other assets, estimated third-party payor settlement, accrued expenses, and other liabilities are reflected in the condensed consolidated balance at their carrying value, which approximate their fair value due to their short maturity.

13. COMMITMENTS AND CONTINGENCIES

Industry Risks - The healthcare industry is subject to numerous laws and regulations of federal, state and local governments, which are complex and subject to interpretation. Compliance with these laws and regulations, including those relating to the Medicare and Medicaid programs, can be subject to governmental review and interpretation. Federal government activity has increased with respect to investigations and allegations concerning possible violations of laws and regulations by healthcare providers. Unfavorable outcomes related to these regulatory investigations could result in the imposition of significant monetary fines, and civil and criminal penalties, as well as significant repayments of previously billed and collected revenue from patient services, and exclusion from participation in the Medicare and Medicaid programs. Currently, as a result of a government review, South Miami Hospital is operating under a Corporate Integrity Agreement

entered into with the Department of Health and Human Services Office of the Inspector General that is in place until December 5, 2021.

Other Matters - Since 2013, the United States Department of Justice (“USDOJ”) has been investigating a non-employed physician who had privileges at South Miami Hospital, Inc. In July 2015, the USDOJ informed South Miami Hospital, Inc., that it also is being investigated with respect to the hospital’s conduct in this matter. South Miami Hospital, Inc., and BHSF are cooperating with this investigation and complying with applicable investigative requests, including grand jury subpoenas. At this time, BHSF cannot predict when the above-noted matter will be resolved, any estimated loss or range of loss to BHSF in connection with it, or what impact, if any, it might have on BHSF’s consolidated financial position, results of operations or cash flows.

BHSF identified a matter that resulted in certain of its hospitals being out of compliance with the 340B drug pricing program (“340B program”) for the period from August 2013 through January 2017 for Baptist Hospital, and from August 2013 through March 2017 for Doctors Hospital, South Miami Hospital, and Homestead Hospital. In May 2017, BHSF self-disclosed this issue to the US Health Resources & Services Administration (“HRSA”). The self-disclosures as to Doctors Hospital, South Miami Hospital and Homestead Hospital were closed by HRSA in October 2018. The self-disclosure as to Baptist Hospital was incorporated by HRSA into an audit of Baptist Hospital’s 340B Program, which concluded with a final audit report issued by HRSA in November 2017. As a result of the HRSA audit, Baptist Hospital was required to contact certain drug manufacturers to address matters identified in the HRSA audit, which may include repayments to drug manufacturers from which Baptist Hospital purchased drugs. At this time BHSF cannot predict the number of manufacturers who may request repayments related to the audit findings, any estimated loss or range of loss to BHSF in connection with the audit, or what impact, if any, the audit might have on BHSF’s consolidated financial position, results of operations or cash flows.

Construction - BHSF has made certain commitments associated with its continuous construction programs. BHSF’s future construction expenditures related to these commitments in periods subsequent to March 31, 2019 are estimated at \$210,764,000. Actual construction expenditures may vary from these estimates.

Information Technology and Other Purchase Commitments - BHSF has made certain commitments for various information technology products and services, as well as other equipment and services. These expenditures are payable up to ten years subsequent to March 31, 2019 and are estimated at \$323,598,000. Actual expenditures may vary from these estimates.

Litigation - BHSF is subject to claims and suits, including malpractice allegations, arising in the ordinary course of business. It is management’s opinion, based on consultation with legal counsel and prior experience with similar cases, that the ultimate resolution of such suits now pending will not have a material adverse effect on BHSF’s future financial position, results from operations or its cash flows.

Income Tax - BHSF is periodically audited by federal and state taxing authorities. The outcome of these audits may result in BHSF being assessed taxes in addition to amounts previously paid. Federal returns for fiscal years 2015 through 2017 remain open and subject to examination by the IRS.

Physician Income Guarantees – Baptist Hospital, Fishermen’s Health, Inc., Homestead Hospital, Mariners Hospital, South Miami Hospital and West Kendall Baptist Hospital provide income and revenue guarantee agreements to certain non-employed physicians and physician groups who agree to fill a community need in the hospitals’ service areas and commit to remain in practice there for a specified period of time. Under such agreements, the hospitals are required to make payments to the physicians and physician groups in excess of the amounts earned or revenue collected in their practices up to the amount of the guarantees. The income and revenue collection guarantee agreements in effect at March 31, 2019, expire at various times through September 30, 2021.

At March 31, 2019, the maximum potential amount of future payments under the income and revenue collection guarantees was approximately \$58,176,000. At March 31, 2019, a liability for future payments under the income and revenue collection guarantees in the amount of approximately \$46,732,000 is included in accrued expenses and current liabilities and other liabilities in the accompanying condensed consolidated balance sheet.

14. SUBSEQUENT EVENTS

BHSF evaluated events and transactions for potential recognition or disclosure through May 15, 2019, the date the condensed consolidated financial statements were issued.

In the third quarter of fiscal year 2019, BHSF repaid an outstanding \$50,000,000 commercial paper note.

In the third quarter of fiscal year 2019, BHSF received notices for capital calls of approximately \$6,427,000 relating to alternative investments which, as of March 31, 2019, had unfunded commitments. BHSF also made a commitment of \$15,000,000 for an alternative investment that, as of March 31, 2019, was unfunded.

In the third quarter of fiscal year 2019, BHSF received approximately \$94,000,000 per the terms of settlement agreements executed with third-party payors for underpaid claims from prior fiscal years.

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET INFORMATION (UNAUDITED)
MARCH 31, 2019

	BHSF Obligated Group							Combined Non-Obligated Group Affiliates	Consolidating Entries	Consolidated
	Baptist Health South Florida, Inc.	BHSF Hospitals	Baptist Outpatient Services, Inc.	Bethesda Health, Inc.	Bethesda Health Comprehensive Imaging Services, Inc.	Bethesda Health Outpatient Services, Inc.	Bethesda Payroll Services, Inc.			
ASSETS										
CURRENT ASSETS:										
Cash and cash equivalents	\$71,209,859	\$91,358	\$764	\$45,003	\$200	\$17,454	\$81,227	\$36,284,972		\$107,730,837
Assets whose use is limited	100,000,000	335,043								100,335,043
Accounts receivable - net	34,049	334,524,157	8,548,085		159,500	102,994		34,021,547		377,390,332
Due from affiliates	34,567,457	88,838,246	6,385,317						(\$129,791,020) (2)	0
Other current assets	58,361,565	91,253,261	2,666,989	810,418	47,722	143	716,956	13,137,893	(595,810)	166,399,137
Total current assets	264,172,930	515,042,065	17,601,155	855,421	207,422	120,591	798,183	83,444,412	(130,386,830)	751,855,349
ASSETS WHOSE USE IS LIMITED	2,945,093,015	7,671,722						36,386,503		2,989,151,240
OTHER INVESTMENTS								143,134,276		143,134,276
PROPERTY AND EQUIPMENT - NET	486,111,415	1,611,468,660	36,535,368	41,047,292	2,314,615			145,572,688		2,323,050,038
BENEFICIAL INTEREST IN NET ASSETS OF BAPTIST HEALTH SOUTH FLORIDA FOUNDATION, INC.	42,062,542	106,029,575	180,165						(148,272,282) (3)	0
GOODWILL		26,481,404						55,998,982		82,480,386
OTHER ASSETS	31,706,826	50,485,901		4,558,544			354,149	60,472,159	(22,600,604)	124,976,975
DUE FROM AFFILIATES	1,332,821,533			251,212,981				397,202	(1,584,431,716) (2)	0
NOTE RECEIVABLE - AFFILIATE		2,840,000						1,554,691	(4,394,691) (2)	0
INVESTMENT IN AFFILIATES	959,489,245								(959,489,245) (5)	0
TOTAL ASSETS	<u>\$6,064,297,506</u>	<u>\$2,317,179,327</u>	<u>\$54,316,688</u>	<u>\$297,674,238</u>	<u>\$2,522,037</u>	<u>\$120,591</u>	<u>\$1,152,332</u>	<u>\$526,960,913</u>	<u>(\$2,849,575,368)</u>	<u>\$6,414,648,264</u>
LIABILITIES AND NET ASSETS (DEFICIT)										
CURRENT LIABILITIES:										
Accounts payable	\$21,524,671	\$8,555,234		\$5,807,918	\$643,817	\$17,610	\$7,920	\$974,499		\$37,531,669
Estimated third-party payor settlements		4,572,550								4,572,550
Commercial paper notes	100,000,000									100,000,000
Current maturities of long-term debt	(1)	10,133,525 (1)	\$87,925 (1)	2,868,550 (1)	(1)	(1)	(1)	(1)		13,009,000
Capital lease obligation				1,111,598				100,583		1,212,181
Accrued wages, salaries and benefits	72,906,174	111,836,547	4,712,747	1,202,666	169,892	36,702	643,126	36,403,739		227,911,593
Accrued expenses and other liabilities	138,962,815	269,921,106	8,768,285	1,859,899				47,467,948	(994,952)	466,030,101
Due to affiliates	95,223,562	12,505,289						22,062,169	(129,791,020) (2)	0
Total current liabilities	428,617,222	417,524,251	13,568,957	12,850,631	813,709	54,312	651,046	107,008,938	(130,740,972)	850,348,094
LONG-TERM DEBT	248,054,928 (1)	911,851,915 (1)	5,746,404 (1)	187,476,881 (1)	(1)	(1)	(1)	(1)		1,353,130,128
CAPITAL LEASE OBLIGATION				12,847,254				60,805		12,908,059
OTHER LIABILITIES	(3,142,867)	205,498,454	3,052,079	7,190,009		9,100,000		21,798,755		243,496,430
NOTE PAYABLE - AFFILIATE		1,554,691						2,840,000	(4,394,691) (2)	0
DUE TO AFFILIATES	1,195,217,797	550,868,943			196,771	45,870	222,284	781,816,364	(2,528,368,029) (2)	0
Total liabilities	1,868,747,080	2,087,298,254	22,367,440	220,364,775	1,010,480	9,200,182	873,330	913,524,862	(2,663,503,692)	2,459,882,711
NET ASSETS (DEFICIT):										
Unrestricted:										
Baptist Health South Florida, Inc. and Affiliates	4,113,169,807	103,606,974	31,769,083	77,309,463	1,511,557	(9,079,591)	279,002	(674,931,785)	123,984,429 (5)	3,767,618,939
Noncontrolling interests									38,725,966 (4)	38,725,966
Total unrestricted net assets (deficit)	4,113,169,807	103,606,974	31,769,083	77,309,463	1,511,557	(9,079,591)	279,002	(674,931,785)	162,710,395	3,806,344,905
Temporarily restricted	65,759,202	112,654,415	180,165					130,379,173	(178,420,465) (3,5)	130,552,490
Permanently restricted	16,621,417	13,619,684						17,868,158	(30,241,101) (3,5)	17,868,158
Total net assets (deficit)	4,195,550,426	229,881,073	31,949,248	77,309,463	1,511,557	(9,079,591)	279,002	(526,684,454)	(45,951,171)	3,954,765,553
STOCKHOLDER'S EQUITY:										
Capital stock								54,200	(54,200) (5)	0
Additional paid-in-capital								26,123,166	(26,123,166) (5)	0
Retained earnings								75,217,173	(75,217,173) (5)	0
Total stockholder's equity								101,394,539	(101,394,539)	0
Noncontrolling interests								38,725,966	(38,725,966) (4)	0
Total equity								140,120,505	(140,120,505)	0
Total net assets (deficit) and stockholder's equity	4,195,550,426	229,881,073	31,949,248	77,309,463	1,511,557	(9,079,591)	279,002	(386,563,949)	(186,071,676)	3,954,765,553
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u>\$6,064,297,506</u>	<u>\$2,317,179,327</u>	<u>\$54,316,688</u>	<u>\$297,674,238</u>	<u>\$2,522,037</u>	<u>\$120,591</u>	<u>\$1,152,332</u>	<u>\$526,960,913</u>	<u>(\$2,849,575,368)</u>	<u>\$6,414,648,264</u>

Notes:

- (1) The members of the BHSF Obligated Group are jointly and severally liable for the entire amount of the long-term debt issued under the Master Trust Indenture. Long-term debt has been allocated to members of the BHSF Obligated Group based on the use of the proceeds.
- (2) To eliminate intercompany receivables and payables
- (3) To eliminate beneficial interest in net assets of Baptist Health South Florida Foundation, Inc.
- (4) To reclassify noncontrolling interests
- (5) To eliminate equity in income, the investment balance in affiliates and the related retained earnings

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION (UNAUDITED)
SIX MONTHS ENDED MARCH 31, 2019

	BHSF Obligated Group							Combined	Consolidating	
	Baptist Health South Florida, Inc.	BHSF Hospitals	Baptist Outpatient Services, Inc.	Bethesda Health, Inc.	Bethesda Health Comprehensive Imaging Services, Inc.	Bethesda Health Outpatient Services, Inc.	Bethesda Payroll Services, Inc.	Non-Obligated Group Affiliates	Entries	Consolidated
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT:										
Net patient service revenue		\$1,454,910,551	\$53,207,210		\$3,369,727	\$512,336		\$109,572,011		\$1,621,571,835
Rental revenue	\$4,450,774			\$3,068,854				6,259,729	(\$6,993,899) (6,7)	6,785,458
Other operating revenue	308,074,904	29,174,674	3,304,441	10,131,362	15,107	600,258	\$22,621	63,380,697	(360,715,801) (6)	53,988,263
Total unrestricted revenues, gains and other support	312,525,678	1,484,085,225	56,511,651	13,200,216	3,384,834	1,112,594	22,621	179,212,437	(367,709,700)	1,682,345,556
EXPENSES:										
Wages, salaries and benefits	136,574,692	535,885,566	18,779,275	8,516,756	1,061,846	294,644		155,463,012	(12,476) (7)	856,563,315
Supplies	(2,023,767)	225,711,159	1,175,021	264,084	237,887	19,345	980	13,366,578	4,661,661 (6,7)	243,412,948
Malpractice and other insurance	41,523,293	40,414,265	658,278					7,158,224	(35,602,525) (6)	54,151,535
Administrative and general	115,232,768	427,909,885	28,116,465	8,449,930	2,219,454	243,732	7,931	72,363,027	(339,774,984) (6,7)	314,768,208
Depreciation and amortization	18,297,496	63,732,832	2,691,090	122,993	239,377			5,610,135	914,993 (7)	91,608,916
Interest	5,274,580	16,672,326	106,961	4,081,188				3,143,572	(3,047,099) (6)	26,231,528
Total expenses	314,879,062	1,310,326,033	51,527,090	21,434,951	3,758,564	557,721	8,911	257,104,548	(372,860,430)	1,586,736,450
EQUITY IN AFFILIATES	79,917,077								(79,917,077) (5)	0
INCOME (LOSS) FROM OPERATIONS	77,563,693	173,759,192	4,984,561	(8,234,735)	(373,730)	554,873	13,710	(77,892,111)	(74,766,347)	95,609,106
OTHER INCOME (LOSS):										
Investment income (loss):										
Interest on affiliate advances	2,891,290							152,641	(3,043,931) (6)	0
Other investment (loss) income	(47,637,573)	53,861		(134,176)				(588,458)		(48,306,346)
Other income (loss) - net		237,396						(40,743)	(2,106,799) (6,7)	(1,910,146)
Total other (loss) income	(44,746,283)	291,257		(134,176)				(476,560)	(5,150,730)	(50,216,492)
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) BEFORE INCOME TAX BENEFIT AND NONCONTROLLING INTERESTS	32,817,410	174,050,449	4,984,561	(8,368,911)	(373,730)	554,873	13,710	(78,368,671)	(79,917,077)	45,392,614
INCOME TAX PROVISION\								103,880		103,880
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER EXPENSES) FROM CONSOLIDATED OPERATIONS	32,817,410	174,050,449	4,984,561	(8,368,911)	(373,730)	554,873	13,710	(78,472,551)	(79,917,077)	45,288,734
								(12,471,324)		(12,471,324)
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) ATTRIBUTABLE TO BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES	\$32,817,410	\$174,050,449	\$4,984,561	(\$8,368,911)	(\$373,730)	\$554,873	\$13,710	(\$90,943,875)	(\$79,917,077)	\$32,817,410

Notes:

(5) To eliminate equity in income, the investment balance in affiliates and the related retained earnings

(6) To eliminate intercompany revenue and expense transactions

(7) To reclassify rental income and expense of BHSF Hospitals from other income to income from operations

BAPTIST HEALTH SOUTH FLORIDA, INC. HOSPITALS
SUPPLEMENTAL COMBINING BALANCE SHEET INFORMATION (UNAUDITED)
MARCH 31, 2019

	Baptist Hospital of Miami, Inc.	Doctors Hospital, Inc.	Homestead Hospital, Inc.	Mariners Hospital, Inc.	Fishermen's Community Hospital, Inc.	South Miami Hospital, Inc.	West Kendall Baptist Hospital, Inc.	Bethesda Hospital, Inc.	Combined
ASSETS									
CURRENT ASSETS:									
Cash and cash equivalents	\$49,200	\$7,566	\$4,729	\$2,250	\$1,650	\$12,245	\$4,800	\$8,918	\$91,358
Assets whose use is limited						335,043			335,043
Accounts receivable - net	157,323,858	18,773,595	17,318,708	8,094,426	1,739,934	58,097,249	23,231,654	49,944,733	334,524,157
Due from affiliates	31,194,323			8,782,249		48,861,674			88,838,246
Other current assets	26,087,141	3,718,363	15,142,712	3,480,716	2,252,221	18,606,553	7,556,744	14,408,811	91,253,261
Total current assets	214,654,522	22,499,524	32,466,149	20,359,641	3,993,805	125,912,764	30,793,198	64,362,462	515,042,065
ASSETS WHOSE USE IS LIMITED									
								7,671,722	7,671,722
PROPERTY AND EQUIPMENT - NET	832,902,113	132,347,185	34,493,892	23,653,709	11,528,712	225,131,733	187,748,055	163,663,261	1,611,468,660
BENEFICIAL INTEREST IN NET ASSETS OF BAPTIST HEALTH SOUTH FLORIDA FOUNDATION, INC.	55,422,369	11,626,143	4,316,769	9,136,162	6,109,694	17,826,254	1,592,184		106,029,575
GOODWILL		22,547,681			3,933,723				26,481,404
OTHER ASSETS	6,018,105	1,541	1,170,437	715,332	1,288,751	9,361,070	79,166	31,851,499	50,485,901
TOTAL ASSETS	<u>\$1,108,997,109</u>	<u>\$189,022,074</u>	<u>\$72,447,247</u>	<u>\$53,864,844</u>	<u>\$26,854,685</u>	<u>\$378,231,821</u>	<u>\$220,212,603</u>	<u>\$267,548,944</u>	<u>\$2,317,179,327</u>
LIABILITIES AND NET ASSETS (DEFICIT)									
CURRENT LIABILITIES:									
Accounts Payable								\$8,555,234	\$8,555,234
Estimated third-party payor settlements	\$147,510	\$911,051	\$107,100	\$3,131,300		\$101,479	\$174,110		4,572,550
Current maturities of long-term debt	2,929,088 (1)	1,660,443 (1)	1,714,214 (1)	160,974 (1)		2,096,902 (1)	1,571,904 (1)		10,133,525
Accrued wages, salaries and benefits	47,292,853	8,363,295	10,689,745	2,675,352	\$650,908	21,834,704	9,740,746	10,588,944	111,836,547
Accrued expenses and other liabilities	116,724,803	16,541,046	35,517,047	4,747,183	3,455,891	52,295,625	21,806,408	18,833,103	269,921,106
Due to affiliates		12,505,289							12,505,289
Total current liabilities	167,094,254	39,981,124	48,028,106	10,714,809	4,106,799	76,328,710	33,293,168	37,977,281	417,524,251
LONG-TERM DEBT	440,998,811 (1)	108,519,913 (1)	112,034,118 (1)	10,520,608 (1)		137,045,124 (1)	102,733,341 (1)		911,851,915
OTHER LIABILITIES	62,019,157	11,206,208	22,277,734	1,762,130	2,302,599	37,321,187	11,302,560	57,306,879	205,498,454
NOTE PAYABLE - AFFILIATE	1,554,691								1,554,691
DUE TO AFFILIATES	328,699		378,605,757		33,702,451		100,755,138	37,476,898	550,868,943
Total liabilities	671,995,612	159,707,245	560,945,715	22,997,547	40,111,849	250,695,021	248,084,207	132,761,058	2,087,298,254
NET ASSETS (DEFICIT):									
Unrestricted	381,579,128	17,688,686	(492,815,237)	21,731,135	(19,366,858)	109,375,503	(29,463,788)	114,878,405	103,606,974
Temporarily restricted	53,103,428	11,626,143	4,316,769	7,258,938	6,109,694	9,984,519	1,592,184	18,662,740	112,654,415
Permanently restricted	2,318,941			1,877,224		8,176,778		1,246,741	13,619,684
Total net assets (deficit)	437,001,497	29,314,829	(488,498,468)	30,867,297	(13,257,164)	127,536,800	(27,871,604)	134,787,886	229,881,073
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u>\$1,108,997,109</u>	<u>\$189,022,074</u>	<u>\$72,447,247</u>	<u>\$53,864,844</u>	<u>\$26,854,685</u>	<u>\$378,231,821</u>	<u>\$220,212,603</u>	<u>\$267,548,944</u>	<u>\$2,317,179,327</u>

Notes:

(1) The members of the BHSF Obligated Group are jointly and severally liable for the entire amount of the long-term debt issued under the Master Trust Indenture. Long-term debt has been allocated to members of the BHSF Obligated Group based on the use of the proceeds.

BAPTIST HEALTH SOUTH FLORIDA, INC. HOSPITALS

SUPPLEMENTAL COMBINING STATEMENT OF OPERATIONS INFORMATION (UNAUDITED)
SIX MONTHS ENDED MARCH 31, 2019

	Baptist Hospital of Miami, Inc.	Doctors Hospital, Inc.	Homestead Hospital, Inc.	Mariners Hospital, Inc.	Fishermen's Community Hospital, Inc.	South Miami Hospital, Inc.	West Kendall Baptist Hospital, Inc.	Bethesda Hospital, Inc.	Combining Hospital Entries	Combined
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT:										
Net patient service revenue	\$662,765,170	\$99,571,746	\$91,326,940	\$33,389,714	\$7,969,294	\$267,008,788	\$122,739,010	\$170,139,889		\$1,454,910,551
Other operating revenue	17,341,329	704,749	1,659,683	2,363,271	423,858	2,328,141	1,222,673	3,803,915	(\$672,945) (1)	29,174,674
Total unrestricted revenues, gains and other support	680,106,499	100,276,495	92,986,623	35,752,985	8,393,152	269,336,929	123,961,683	173,943,804	(672,945)	1,484,085,225
EXPENSES:										
Wages, salaries and benefits	216,781,046	37,243,032	49,349,870	9,979,622	3,717,655	97,637,654	46,847,133	74,329,554		535,885,566
Supplies	115,624,894	14,458,692	10,209,518	3,320,266	460,571	34,938,993	11,539,207	35,159,018		225,711,159
Malpractice and other insurance	14,166,948	2,064,276	5,304,390	558,462	215,502	5,256,765	2,779,869	10,068,053		40,414,265
Administrative and general	189,447,401	30,812,121	44,373,643	8,864,017	5,219,439	77,713,733	36,915,988	35,236,488	(672,945) (1)	427,909,885
Depreciation and amortization	30,293,848	5,214,012	1,857,835	1,108,070	536,607	11,555,803	5,790,309	7,376,348		63,732,832
Interest	8,509,241	1,559,018	2,085,413	195,830		2,502,294	1,820,530			16,672,326
Total expenses	574,823,378	91,351,151	113,180,669	24,026,267	10,149,774	229,605,242	105,693,036	162,169,461	(672,945)	1,310,326,033
INCOME (LOSS) FROM OPERATIONS	105,283,121	8,925,344	(20,194,046)	11,726,718	(1,756,622)	39,731,687	18,268,647	11,774,343	0	173,759,192
OTHER INCOME (LOSS) - NET										
Investment income								53,861		53,861
Other income (loss) - net	213,324	(118,579)	26,098	131,592	101,371	231,364	(347,774)			237,396
Total other income (loss)	213,324	(118,579)	26,098	131,592	101,371	231,364	(347,774)	53,861		291,257
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	\$105,496,445	\$8,806,765	(\$20,167,948)	\$11,858,310	(\$1,655,251)	\$39,963,051	\$17,920,873	\$11,828,204	\$0	\$174,050,449

(1) To eliminate intercompany revenue and expense transactions